REPUBLIC OF THE PHILIPPINES

BUDGET

FOR THE FISCAL YEAR

1959

VOLUME I

SUBMITTED BY THE

PRESIDENT OF THE PHILIPPINES

TO THE

CONGRESS OF THE PHILIPPINES

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THE PRESIDENT'S BUDGET MESSAGE

Malacañang

Manila

February 11, 1958

GENTLEMEN:

Pursuant to the provisions of Section 19(1), Article VI, of the Constitution, I am submitting the Budget of the National Government for the fiscal year ending June 30, 1959.

Following precedent set by my predecessor, I am incorporating in this message a Five-Year Fiscal Plan out of the context of which the 1959 budget has been drawn. For purposes of a clear presentation of the operation of the Government, in both its long and short-run policies, this Budget Message is divided into two parts:

Book I—The Five-Year Fiscal Plan
Book II—The Fiscal Year 1959 Budget

BOOK I—THE FIVE-YEAR FISCAL PLAN

A. THE LONG-RANGE PERSPECTIVE

The Need for Long-Range Planning

Economic development demands long-range fiscal planning. We must budget our financial resources to provide consistency and continuity in pursuing our economic goals within a relatively longer period of time than one fiscal year. Such long-range programming will give to both the legislature and the public advanced knowledge of the Government's intended actions. The private sector of our economy, in particular, needs such advanced knowledge as one of the principal factors on which to base its decisions.

Fiscal Years 1958 and 1959, as revised, are firm. The remaining years through Fiscal Year 1962 are presented in as definite terms as is now practical in order to reflect the long-range pattern of the Fiscal Plan. These years are now somewhat tentative, not firm. Hence, they must be regarded as a basic framework of policy and program sufficiently stable to provide firm guidance for action in all diverse fields of national development but which are at the same time sufficiently flexible to permit adjustment to future changes in economic and monetary conditions and in development needs.

Needless to say, long-range fiscal planning can hardly go beyond rough estimates, forecasts and approximations. Hence, periodic revisions according to changing circumstances are necessary. I am, therefore, submitting to you an updated Five-Year Fiscal Plan based on the plan presented to you last year.

The Long-Range Goals

The long-range goals remain the same: economic and social development. The objectives of economic development are the reasonably full employment of our resources, particularly our human resources which are fast growing every year, and the increase of real per capita income.

The general goal of social development is greater real income equality.

I realize that these two general goals—economic development and social development—may often conflict with each other. Our task, therefore, includes the harmonizing of our programs as much as possible. But in a larger sense the two are inherently harmonious and complementary. Social development tends to enable the human resources to contribute more to the national income. I believe, however, that we should devote as much of our resources as possible to the acceleration of economic development. In the long run only increased resources resulting from higher production and greater capital formation can support adequate social benefits.

An Agro-Industrial Economy

I believe that the best approach to the above-mentioned goals is to hasten our agricultural and industrial progress. We should promote our agriculture because it is still the mainstay of our economy and because adequate agricultural resources are indispensable to industrial progress. On the other hand, manufacturing can substantially supplement agriculture in providing more employment opportunities and increasing the per capita income.

The Role of Government and Business

The Government's main role in the agricultural and industrial programs is to foster an attractive "investment climate" for the private sector of the economy. The Government seeks to supplement, not to

supplant, private investors. At this stage it is also necessary that the Government orient the national economy so as to assure that maximum gains will redound to the benefit of the greatest number.

I reiterate the fundamental policy expressed in the Budget Message of last year that "our national economic development must and will take place within the basic framework of private enterprise." We will hold firm to the principles of free initiative. We will not prescribe a limited role for private business. Within certain broad limitations in the public interest, we will foster the development of industry and commerce in accordance with the dictates of feasibility and profitability as determined by the private businessmen.

With its limited resources, however, the Government cannot extend equal assistance to the various private sectors. But while it is under the necessity to devote relatively more assistance to certain strategic sectors of our economy than to others, its over-all goal is the common good. This is the basic purpose of the system of priorities of scientific budgeting.

B. THE CURRENT ECONOMIC PROBLEMS

Our most pressing economic problems at present may be briefly summed up to:

(1) Low dollar reserves.
(2) Inflationary pressures.

It should be noted, however, that these two problems have come about to a very large extent because of the increased tempo of our economic and social development. They resulted from the expansionary measures taken by the Government to meet the sluggishness of the national economy which became very evident in 1953. The problem of unemployment became more pressing, while private investment steadily declined from 1949 to 1953. The Government, therefore, adopted such measures as liberal credit facilities, tax exemption, increased government expenditures, and increased importation of capital goods and raw materials. While the resulting economic growth appears to have followed basically sound lines, it proceeded at a rate faster than the country's foreign exchange resources could adequately support. Moreover, although domestic production increased, it did not keep pace with the rapid growth of money supply. The end results are our current problems of low dollar reserves and inflationary pressures.

It should, therefore, be realized that the problems we face today are those of a progressing, rather than a deteriorating economy; of economic development rather than stagnation.

The problems of low-dollar reserves and inflationary pressures, however, may assume very serious proportions if we do not immediately take effective countermeasures. Unless we do this, our long-run goals of economic and social development may be greatly hampered. We must generally employ our short-run fiscal policies to save our long-run objectives. At this juncture the consolidation of the gains our economy has won should also precede in priority the furthering of our long-range plan.

Our short-run fiscal policy should be aimed at three main objectives:

(1) rephasing of government expenditures consistent with the most pressing needs of the people.
(2) raising of maximum revenues through taxation.
(3) greater production in agriculture and utilization of natural resources, and increased productivity of existing industrial facilities.

These policies are calculated to meet the problems of low-dollar reserves and inflationary pressures in two main directions:

(1) curbing excessive monetary demand on goods and services, and
(2) stimulating the production of goods and services.

While meeting these two critical problems of low-dollar reserves and inflationary pressures, we should maintain our economic and social gains.

Our short-run fiscal policy, just like our long-run fiscal policy, calls for "austerity." But our short-run austerity measures have to be more drastic than our long-range course of action.

C. THE QUANTITATIVE PRESENTATION OF THE FIVE-YEAR FISCAL PLAN

Fundamental Policies and Principles

In the preparation of the Five-Year Fiscal Plan covering the period from Fiscal Year 1958 through Fiscal Year 1962, these fiscal policies and principles previously enunciated, were used as guides:

"1. The Government will continue to maintain a balanced budget for general operations and will make every effort to obtain revenues sufficient to meet planned obligations or reduce commitments accordingly. We will not resort to the practice in the past of deficit financing for current operations.

"2. We will engage in a policy of judicious public borrowing to finance economic development without impairing monetary stability. Such borrowings will be used exclusively for income-creating or other productive capital expenditures to finance priority ranking projects directly contributing to industrial and agricultural production. We will reduce the use of the national credit as rapidly as development needs are met, or as other resources become available.

"3. We will test every proposed expenditure of public funds against the touchstone of the national interest. In the serious business of national development we can not afford the luxury of administrative waste or of excessive expenditures for projects of secondary or merely political importance.

"4. Our tax policy will be geared to the essential financial requirements of government for general operations and development purposes. The tax structure must emphasize the progressive factor of ability to pay without impairing legitimate business incentives.

"5. The public debt will not exceed a level consistent with our economic growth. We will keep amortization and interest payments against the public debt on schedule and establish the necessary sinking funds for their ultimate retirement.

"6. Tariffs will be employed as a means of offering reasonable protection to domestic producers where such measures appear economically sound and in the national interest. However, we will continue to use tariffs primarily as a source of revenue. We will avoid any tendency to isolate the economy behind a formidable tariff wall."

A Balanced Five-Year Fiscal Plan

In compact form, the up-dated Five-Year Fiscal Plan is presented below:

CONSOLIDATED FIVE-YEAR FISCAL PLAN, 1958-1962

By Program Emphasis and Financing Sources

All Funds Combined

(MILLIONS OF PESOS)

	FY 1957 (Actual)	FY 1958 (Est.)	FY 1959 (Est.)	FY 1960 (Proj.)	FY 1961 (Proj.)	FY 1962 (Proj.)	1958-1962 Total
Expenditure Purposes:[a]							
1. Economic Development	158.3	161.9	552.9	560.4	579.0	591.7	2,754.9
2. Social Development	345.4	354.8	396.5	456.3	497.6	535.4	2,240.6
3. National Defense	157.0	176.9	194.9	232.5	237.3	242.3	1,083.9
4. Debt Service	92.5	68.3	103.2	122.1	130.1	117.5	541.2
5. General Government	84.6	96.5	99.0	110.7	112.2	135.3	553.7
Total Expenditures	1,137.8	1,158.4	1,346.5	1,491.0	1,556.2	1,622.2	7,174.3
Financing Sources:[a]							
1. General Fund Receipts	760.3	792.6	797.6	839.6	890.0	933.4	4,253.2
2. Special and Fiduciary Funds	165.6	161.9	170.6	183.8	189.9	195.2	904.4
3. Public Borrowings —	925.9	954.5	968.2				
Domestic bond issues	152.1[b]	115.0	75.0	75.0	75.0	75.0	445.0
Foreign bond issues			100.0	100.0	100.0	100.0	400.0
4. IBRD loan (Binga)		14.2	22.5	8.3	0.6	0.6	41.2
5. Reparations Proceeds			18.0	30.0	34.0	38.0	120.0
6. Required Additional Revenues							
Tax Amnesty and Census			15.0	18.0	21.0	25.0	79.0
Revised Tax Measures			143.7	252.1	261.2	269.6	926.6
Total Resources	1,078.0	1,116.7	1,342.4	1,501.8	1,571.7	1,636.8	7,169.4

[a] Interfund transfers eliminated.

[b] Includes unliquidated obligations of ₱134.7 million in the Bond Fund.

[c] The excess of expenditures over current financing sources is covered by the accumulated surplus of the special funds amounting to ₱189,217,202 as of June 30, 1957.

NOTE: 1. Preceding table does not include:

(*a*) Transactions of government financial institutions.
(*b*) Operating income and expenses of corporations.
(*c*) Loans to government corporations from commercial or government financial institutions.

2. See Annex A for distribution of expenditures by funds, functions and current operating and capital outlay.

The recommended levels of government expenditures in the long-range fiscal program are justifiable. They are based on considerations of the reasonable proportion of the national income that can be diverted to government purposes to secure the desired development levels without undue inflation. For the entire five-year period, government outlays for investment and current expenditures, including the estimated expenditures of local governments, average 15.8 per cent of the national income as indicated in Annex B. This ratio is comparatively lower than what prevails in many other countries in a similar state of development. (See Annex C). In Burma and Ceylon, for example, government expenditures in 1955 were 28.1 per cent and 17.8 per cent, respectively, of the national income. As in many other underdeveloped economies where the rate of net capital formation is low, the Philippines is in a situation which demands that the Government should accumulate the largest amount of capital which can be plowed back into the economy's productive undertakings without impairing monetary stability. Thus, this ratio is by no means excessive; it appears reasonable and within the capacity of our economic structure to support. Moreover, over one-fifth (23.7 per cent) of the projected total government outlay is for development purposes which are income-generating.

The Five-Year Fiscal Plan takes into account also the foreign exchange requirements of the various government programs and projects.

Peso amounts provided in the budget have been carefully coordinated with prospective foreign exchange availability from all sources. We have taken steps to explore every possible source of dollars from abroad, including the use of foreign credit, reparations and dollar bond issues. The net potential demand on our foreign exchange resources are ₱149.7 million in Fiscal Year 1958, ₱71.0 million in Fiscal Year 1959, ₱107.1 million in Fiscal Year 1960, ₱104.6 million in Fiscal Year 1961, and ₱108.6 million in Fiscal Year 1962, as indicated in Annex D. These foreign exchange requirements of the Government's capital investment program can be met without reducing our international reserves.

A Rising National Income Level

The Five-Year Fiscal Plan is premised on a rising level of national income. The investment of public funds in social overhead projects is designed to create the climate necessary for the growth and expansion of private business. Government finances shall be provided for pioneering into key economic activities in which private business is reluctant to venture, i.e., capital intensive industries such as steel and power.

On the basis of the performance of the economy in the past eight years (1949–1956), real national income was projected as shown by the following table:

PROJECTION OF NATIONAL INCOME *

Calendar Year	National Income		Population (Million)	Per Capita Income	
	Million Pesos	Index		Pesos	Index
1957	8,946	100.00	22.69	394	100.00
1958	9,508	106.28	23.12	411	104.31
1959	10,105	112.95	23.56	429	108.88
1960	10,740	120.04	24.01	447	113.45
1961	11,414	127.58	24.47	466	118.27
1962	12,130	135.59	24.94	486	123.35

* At 1957 Prices

At the annual rate of increase of 6.28 per cent, the experience in the past eight years, real national income will rise by 35.6 per cent between 1957 and 1962. Since population grows at the relatively lower rate of 1.9 per cent annually, per capita income in 1962 will be 23.4 per cent more than the income in 1957. At these rates, real income will double in 12 years, and real per capita income in about 18 years.

Expansion in Money Supply

The Five-Year Fiscal Plan was designed to exert a stabilizing influence on the expansionary pressures on money supply expected to be generated by the private sector for productive investments. Bond-financed investment outlays programmed last year were revised downwards by using other sources of public financing, and by pruning the remaining outlays to the barest minimum requirements of projects under construction which would otherwise waste the resources already invested if completely stopped.

Starting in Fiscal Year 1959 annual domestic bond outlays are well below the corresponding amounts to be paid out of the general fund for servicing the public debt. As a result, overall government operations will exert a disinflationary effect on the volume of money. This will permit investments in the private sector to have a greater participation in growth of money supply.

That the economy can sustain the planned borrowing levels is borne out by the results of technical computations which measure primary and secondary effects of anticipated bond fund expenditures on the national income and the price level. (See Annex E)

D—RELATIVE PROGRAM EMPHASIS IN EXPENDITURES

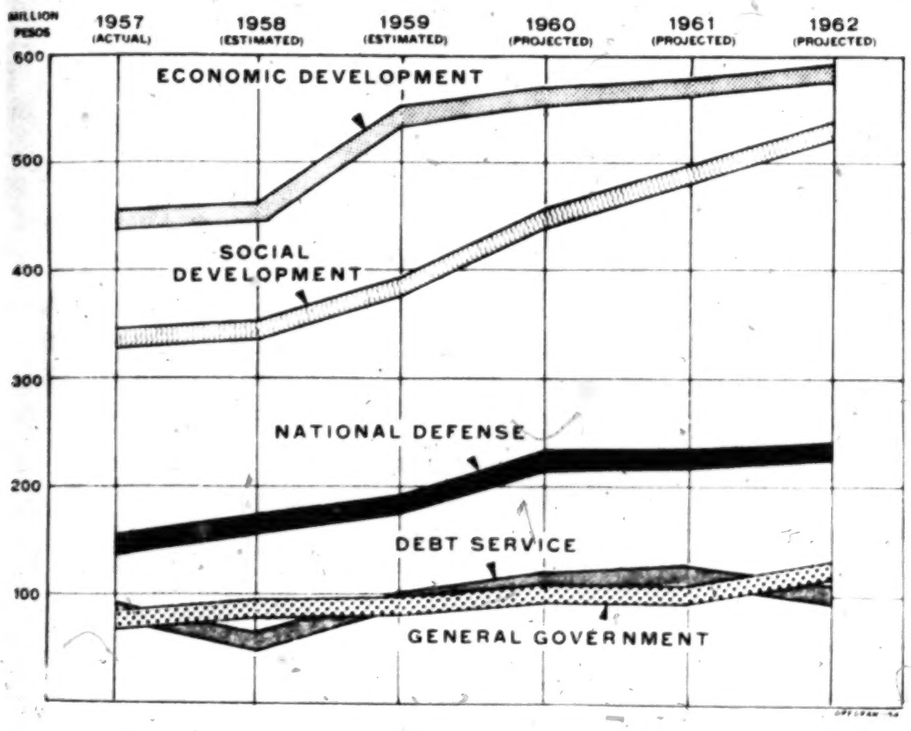
Steady Rise in Costs of Expanding Government Services

Government expenditures for all purposes inevitably follow an upward trend. Essential services and facilities must keep pace with our rapidly growing population. Our Government, as in other underdeveloped countries, must play the vital role of leader in national uplift; it must be the initiator and energizer of the overall development program. It must furnish the necessary social overhead capital in the form of educational, health, sanitation, social welfare and training services. It must construct the highways, communications and irrigation systems, supply power and provide other public service facilities which are necessary to induce greater private capital participation. It must enter directly into productive fields which are as yet unattractive to private capital. And it must pay our past as well as current debts.

The trends in public expenditures and the relative emphasis given to the major classification of functions during the five-year period 1958–1962, are depicted in the chart below.

FIVE-YEAR FISCAL PLAN
1958–1962

RELATIVE PROGRAM EMPHASIS TRENDS
(ALL FUNDS)



Bulk of Expenditures Allocated to Economic Development

The revised Five-Year Fiscal Plan provides steadily increasing amounts of funds for economic advancement, including expenditures for the development of agriculture and natural resources, commerce and industry, transportation and communication and other economic development services. Expenditures for economic development covering all funds, takes almost 40 per cent of total government expenditures. In absolute amounts, including both current and capital outlays, the range is from ₱461.9 million to ₱591.7 million as may be seen in the following table:

COMPARATIVE AMOUNTS DEVOTED TO ECONOMIC DEVELOPMENT
(Millions of Pesos)

1953 (actual)	151.0
1954 (actual)	267.7
1955 (actual)	330.9
1956 (actual)	467.0
1957 (actual)	458.3
1958 (estimated)	461.9
1959 (proposed)	552.9
1960 (proposed)	569.4
1961 (proposed)	579.0
1962 (proposed)	591.7

NOTE: Includes both current and capital expenditures.

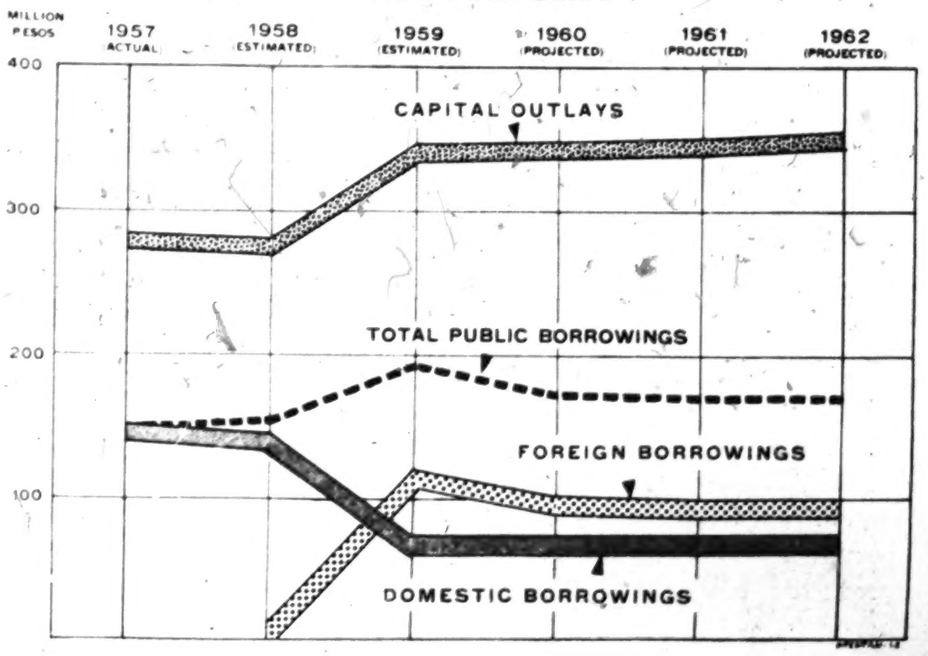
Since accelerated economic development requires that a greater proportion of the national income be channelled from consumption to productive investments, we have deliberately allocated increasing amounts to public capital investments. At the same time we have to provide for current expenditures which will be needed to operate these capital projects.

Of greater significance than these overall sums devoted to economic development is the contribution of the public sector to capital formation. Such investments for economic development operate with a multiplier effect. The benefits from the original investments grow with the years, an increasing supply of goods and services flowing from the augmented capital wealth of the country.

Consistent with this principle, our Five-Year Fiscal Plan provides increasing amounts of capital outlays for economic development from ₱281.9 million in 1958 to ₱360.0 million in 1962. This is particularly impressive in view of the fact that the fiscal program is founded on a reduced level of public borrowings, the domestic component of which is pegged at ₱75 million beginning in Fiscal Year 1959. This trend is shown graphically below and statistically in Annex F.

FIVE-YEAR FISCAL PLAN
1958–1962

COMPARATIVE PROJECTION OF DEVELOPMENT FINANCING AND PUBLIC BORROWING



Three types of programs are financed by the capital outlays for economic development, namely:

(1) Directly productive undertakings like steel and power.

(2) Credit facilities for the private sector.

(3) Overhead facilities and services including transportation and communications which are of importance as a foundation to the economic processes.

The breakdown of the expenditures for economic development is reflected in the following table:

EXPENDITURES FOR ECONOMIC DEVELOPMENT
All Funds
(Million Pesos)

	FY 1957 (Actual)	FY 1958 (Est.)	FY 1959 (Est.)	FY 1960 (Proj.)	FY 1961 (Proj.)	FY 1962 (Proj.)
A. *Capital Outlays*[a]	284.6	281.9	349.5	351.7	355.9	360.0
1. Direct Investment[b]	86.3	104.5	156.8	155.3	128.3	143.9
2. Private Sector Credit Expansion[b]	60.4	22.2	37.5	23.2	24.5	27.0
3. Economic Overhead[b]	(142.9)	(160.2)	(164.1)	(173.2)	(203.2)	(189.2)
Agricultural Production and Development	9.6	23.4	37.2	32.7	31.8	32.7
Public Facilities and Services	133.3	136.8	126.9	140.5	171.4	156.5
B. *Current Operating Expenditures*[a]	173.7	180.0	203.4	217.7	223.1	231.7
Economic Development Services						
1. Agriculture and Natural Resources	46.2	50.4	66.2	71.9	76.8	81.5
2. Commerce and Industry	16.8	9.7	11.2	11.0	11.9	13.0
3. Transportation and Communications	102.2	110.6	111.7	109.3	113.7	116.7
4. Other Economic Development	8.5	9.3	14.3	25.5	20.7	20.5
TOTAL EXPENDITURES (Current and Capital)[a]	458.3	461.9	552.9	569.4	579.0	591.7

[a] Net totals (interfund transfers eliminated)
[b] Gross totals
[c] Excludes Refunding Issues of ACCFA notes from FY 1958 to FY 1962

It will be noted that the bulk of public investment in the form of capital expenditures is allocated for economic overhead, including transportation and communication, which are necessary to enhance the productive process and the creation of a favorable climate and new opportunities for increased private investment.

The investment magnitudes originating from the public sector as indicated above, together with the participation of the private sector, will go a long way toward measurable increases in national income. (Annex G.)

Mandatory Increments for Social Development Purposes

Economic development also requires social values which encourage enterprise and innovation and stimulate expansion and growth. Our social development program is aimed at conditions that will promote a rising level of productivity. Integrated with the aim of increased human efficiency for greater economic production is of course our objective of a more equal distribution of our national income in real terms.

Substantial increases, within the limits of general fund resources, are planned for social development services and facilities, embracing programs in education, public health and medical care, and labor and welfare. This is indicated in the following table:

COMPARATIVE AMOUNTS DEVOTED TO SOCIAL DEVELOPMENT
All Funds
(Million Pesos)

1953 (actual)	215.0
1954 (actual)	246.0
1955 (actual)	281.3
1956 (actual)	318.0
1957 (actual)	345.4
1958 (estimated)	354.8
1959 (proposed)	396.5
1960 (proposed)	456.3
1961 (proposed)	497.6
1962 (proposed)	535.4

NOTE: Includes current and capital outlays.

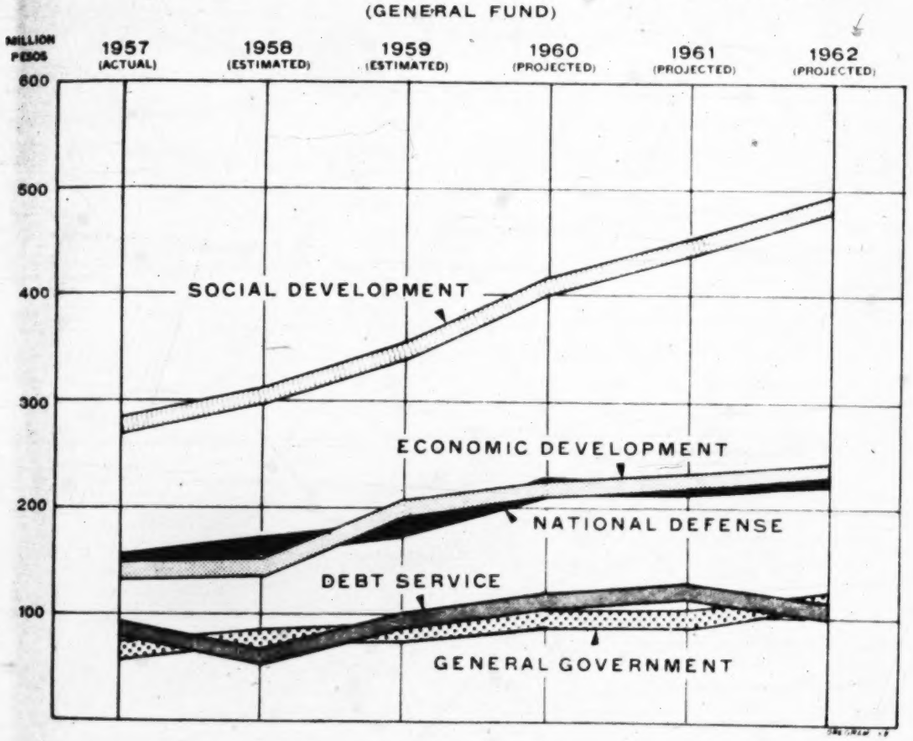
Allocation of a large proportion of the annual sums to social development is unavoidable. While it appears that these amounts are large in absolute terms they are still inadequate if we are to raise our standards in education, health, labor and welfare services to desirable minimum levels. But I believe we can hope to elevate our social and cultural standards in the years ahead as a result of increased government revenues arising from the general increase in national income that is expected to follow economic development.

Essential as it is, our social development must be within the normal resources of the Government contained in the General Fund and financed from tax revenues. A proportionally large amount of our available general revenues each year is taken up by the social development function, thereby limiting the sums which can be allocated to other

purposes. This trend in relative program emphasis in expenditures from the General Fund is shown in the following chart:

FIVE-YEAR FISCAL PLAN
1958–1962

EXPENDITURE TRENDS AND RELATIVE PROGRAM EMPHASIS
(GENERAL FUND)



In terms of percentage of total expenditures from all funds, social development takes from 30.6 per cent to 33.0 per cent. It may be pointed out that the proportion of social development expenditures will rise in the years ahead on account of the steady increase in population. These increases are mandatory in nature because the public services to be provided are the direct responsibility of the Government.

National Defense and Internal Security

The attainment of our goals towards economic development can be achieved only if peace and order prevails throughout the country. I must state that the general situation obtaining is highly favorable. But I must warn against complacency.

We must maintain and improve on the gains made in the economic sector by providing the Armed Forces of the Philippines with the necessary men and equipment.

The Administration is committed to modernize the armed services but only within the limits of our resources. At the same time, we must implement our commitments with other nations, consistent with our membership in the SEATO and the United Nations and our special relations with the United States. A realistic appraisal of our defense policy underscores the need of aligning ourselves with the other nations of the free world.

For these basic reasons, I recommend the following substantial amounts to maintain our armed services:

EXPENDITURES FOR THE ARMED FORCES
All Funds–Current and Capital Outlays
(Millions of Pesos)

	FY 1957 (Actual)	FY 1958 (Est.)	FY 1959 (Est.)	FY 1960 (Proj.)	FY 1961 (Proj.)	FY 1962 (Proj.)
General Headquarters	25.1	25.1	26.1	25.7	25.0	24.9
Army	59.2	61.8	63.1	79.6	75.3	76.3
Navy	14.6	16.3	20.0	30.3	30.1	30.5
Air Force	13.3	20.2	25.3	32.2	38.0	37.5
Constabulary	20.8	25.7	29.5	27.2	27.3	27.6
Total	133.0	149.1	164.0	195.0	195.7	196.8

These annual sums will finance the training of army reserves, the modernization of the navy and the air force, the carrying out of our military commitments to other nations, the increase of training facilities for the navy and the constabulary, and the increase in the basic pay of enlisted men. They represent 12.5 per cent of the total expenditures for the five-year period.

While not discounting the importance of protective forces to national uplift, I am also aware of the fact that any funds allocated to our Armed Forces reduce the sums available for other essential needs for economic development. I believe the sums provided in the Five-Year Fiscal Plan represent levels which are supportable by our limited resources and adequate to enable the Armed Forces to carry out its functions effectively.

Debt Service

I intend to continue the sound business practice of providing sinking funds for the amortization of the public debt. An aggregate amount of ₱541.2 million is earmarked for debt service over the entire five years covered by our fiscal plan. Starting with ₱17.1 million in Fiscal Year 1958, expenditures for the interest on the public debt are projected to increase to ₱42.3 million in Fiscal Year 1962. Repayments and contributions to the sinking funds on the outstanding debt will drop from a

peak of ₱89.5 million in Fiscal Year 1961 to ₱73.7 million in Fiscal Year 1962 on account of the settlement of a large portion of our foreign obligations. As a percentage of the total expenditures, debt service requirements will rise from 5.9 per cent in Fiscal Year 1958 to 7.2 per cent in Fiscal Year 1962.

General Government

While devoting our energies to the pursuit of economic and social development, we must also give attention to an equally important phase of national activity, that of maintaining or improving the basic functions inherent in an organized democratic society like ours. I wish to emphasize, however, that expenditures for general government purposes, including legislative services, administration of justice, pensions and gratuities and general administration will be kept to the essential minimum.

For general government, the Five-Year Fiscal Plan provides ₱96.5 million in Fiscal Year 1958, ₱99.0 million in Fiscal Year 1959, ₱110.7 million in Fiscal Year 1960, ₱112.2 million in Fiscal Year 1961, and ₱135.3 million in Fiscal Year 1962. These expenditures are distributed as follows:

	FY 1958	FY 1959	FY 1960	FY 1961	FY 1962
Legislative Service	10.2	10.8	10.7	10.7	10.7
Administration of Justice	12.8	13.6	13.9	14.2	14.5
General Government	70.4	66.7	77.2	77.2	98.2
Pensions and Gratuities	3.1	7.9	8.9	10.1	11.9
Total	96.5	99.0	110.7	112.2	135.3

The increase in the costs of general government proper is primarily due to the intensification of the activities of revenue-collecting agencies and the conduct of elections.

Special efforts are being exerted in the intensification of tax and other revenue collections. It is noteworthy that since 1954 the Administration has been able to meet its financial needs with revenues collected under existing tax laws. This has been possible through a more aggressive collection campaign being conducted by our revenue collecting agencies. Accordingly, increased appropriations for the Bureau of Internal Revenue and the Bureau of Customs are provided as indicated below (in million pesos):

	FY 1958	FY 1959	FY 1960	FY 1961	FY 1962
Bureau of Internal Revenue	7.6	9.2	11.1	12.5	13.1
Bureau of Customs	4.3	4.6	5.0	5.5	6.0

These increases will enable these collecting arms of the Government to improve the efficiency of the tax administration machinery. The establishment of two additional regional offices in Fiscal Year 1959 to complete the goal of ten regional offices in operation will bolster revenue collections. Likewise, the increase in appropriations for the Bureau of Customs will enable it to minimize leakages in customs and tariff revenues.

For the administration and enforcement of election laws, we are providing the Commission on Elections ₱11.4 million in Fiscal Year 1958, ₱324,400 in Fiscal Year 1959, ₱6.3 million in Fiscal Year 1960, ₱1.3 million in Fiscal Year 1961, and ₱18.3 million in Fiscal Year 1962. The increases are due to the holding of elections every two years.

E. FINANCING NATIONAL DEVELOPMENT

Inadequacy of Revenues to Support Irreducible Minimum Needs

We are under no illusions as to the rough road to national development. Large amounts of public investments will be required to achieve substantial economic progress. But public funds are inadequate to finance all desirable projects. Government income must be increased.

We need to balance our public borrowing program by a vigorous and progressive tax policy which must produce the revenues to finance not only normal operations of the Government but also overhead expenditures required by an expanding national economy. We shall reserve the use of public borrowings to finance capital outlays and investments of high priority. Yet increased public revenues are also necessary to the success of the economic development program.

As I have already indicated, the overall trend of government expenditures for all purposes is inexorably upward. The demands on our national funds, particularly on our General Fund resources, represent the irreducible needs of a program geared to a balanced national development. The rise in General Fund expenditures cannot be avoided. The Government has the responsibility to meet the public services need of an expanding population, in addition to providing funds for the economic and social facilities and services to accelerate the development process, the servicing of the public debt, the liquidation of government obligations and for other benefits to the people in terms of improved public administration.

In the past four years we have been able to finance these increases in current operating expenses and normal capital outlays exclusively from

tax revenues. We will continue the policy of not resorting to deficit financing for current operations.

In preparing long-range revenue estimates based on existing taxes and rates, all economic factors which bear upon the level of collections have been taken into account. Thus, we have calculated the impact of anticipated changes in the direction of trade, considered the projected increases in national income and assumed the premise of an expanding economy. The following estimates are accordingly realistic:

ESTIMATES OF INCOME FOR THE GENERAL FUND UNDER EXISTING LAWS

GENERAL FUND

(Millions of Pesos)

Sources	FY 1957 (Actual)	FY 1958 (Est.)	FY 1959 (Est.)	FY 1960 (Proj.)	FY 1961 (Proj.)	FY 1962 (Proj.)
1. Excise Taxes	166.9	173.7	179.4	186.8	192.8	198.1
2. License and Business Taxes	191.9	202.8	203.4	211.2	220.5	231.8
3. Income Taxes [a]	153.8	151.7	159.8	181.2	203.0	220.4
4. Import Duties [b]	201.3	197.5	212.5	216.9	220.5	224.0
5. Other Taxes and Duties	32.5	40.3	40.0	44.9	49.9	53.9
6. Other Income	59.8	90.4	53.0	53.1	57.1	61.0
7. Extraordinary Income [c]	8.2	8.1	21.7	18.0	20.0	20.0
8. (Apportionment to local governments)	(61.3)	(70.2)	(70.3)	(72.5)	(73.9)	(75.7)
Total Income from Existing Sources	753.1	794.3	799.5	839.6	890.9	933.4

[a] Based on existing income rate for FY 1958

[b] Assumes:

(1) 5% increase in import volume after FY 1959

(2) Changes in direction of trade from 52% U.S. goods in FY 1958 to 48% in FY 1962

(3) Changes in rates as per existing laws: R. A. No. 1355 and R. A. No. 1394

(4) Changes in tax exempt volume of imports from 10% in FY 1958 to 20% in FY 1962

[c] Treasury notes of ₱10 million excluded from FY 1957

However, the existing tax structure cannot support the increments in government expenditures. Additional revenues will be required to balance income and expenditures. This is indicated in the following table:

PROJECTED REVENUE-EXPENDITURE BALANCE

General Fund

(1957–1961)

(Millions of Pesos)

Planned Income	FY 1957 (Actual)	FY 1958 (Est.)	FY 1959 (Est.)	FY 1960 (Proj.)	FY 1961 (Proj.)	FY 1962 (Proj.)
Existing Taxes and Rates	753.1	794.3	799.5	839.6	890.9	933.4
Tax Amnesty and Census			15.0	18.0	21.0	25.0
Additional Revenues			143.7	252.1	261.2	269.6
Treasury Notes	10.0					
Total Income	763.1	794.3	958.2	1,109.7	1,173.1	1,228.0
Planned Expenditures						
Current Operating Expenditures	666.8	701.8	810.8	931.2	991.6	1,052.0
Capital Expenditures	93.2	92.5	139.8	169.9	169.2	169.6
Total Expenditures	760.0	794.3	950.6	1,101.1	1,160.8	1,221.6
Excess of Income Over Expenditures	3.1		7.6	8.6	12.3	6.4

Changes in economic factors and other circumstances have reduced the levels of receipts projected last year. For example, customs receipts are very much lower than expected because of the adverse effects of the revised tariff code and the tightening of exchange controls. It is imperative, therefore, that we seek more reliable tax bases for augmenting our revenues in the years ahead. Experience and the changing conditions demand that we reexamine our revenue structure and tax policies. Tax research, together with improvements in tax administration, are immediate imperatives in this regard.

The Congress is called upon to share in the responsibility of reviewing and overhauling our tax structure. I endorse the recommendation of my predecessor to create a joint Legislative-Executive Commission to undertake a comprehensive study of the present tax system and administration, and to recommend desirable improvements. I urge the immediate establishment of this body so that its recommendations can be implemented in the coming year. Meanwhile, the proposals of the Tax Advisory Board should be given serious consideration by Congress. The findings and recommendations of the Board are given in Volume IV of the Budget.

To guide the proposed Commission, I reiterate the principles enunciated in the Budget Message last year, as follows:

"1. To avoid increasing the tax burden of the average taxpayer.

"2. To assess sectors of the economy not now bearing their proportionate share of the costs of Government.

"3. To place emphasis on progressive rather than regressive factors in the tax system, with ability to pay as the principal criterion.

"4. To avoid impairing appropriate business incentives.

"5. To use the tax structure as a legitimate instrument for achieving social and economic justice in the distribution of the fruits of our national economy."

Our economy is capable of yielding additional revenues. In 1957 only 8.5 per cent of our national income was diverted to government purposes by taxation. It is proposed that this proportion be raised to around 10 per cent. Our country has one of the lowest tax levels in the world. In many other underdeveloped areas, taxes absorb from 15 to 20 per cent of the national income. (Annex I).

We need more revenues. We have to face the fact that if we are to develop and expand social services to our people, we must pay the price therefor.

Resources from Reparations

We have a reservoir of funds, goods and services amounting to $550 million in the form of reparations from Japan. The Philippine Mission has already procured goods to the value of $44.4 million, of which $17.5 million have actually been shipped.

The allocation and use of reparations will be governed by the provisions of Republic Act No. 1789 creating the Reparations Commission. However, I wish to state my views on two major policy decisions which will require amendments to the law. The first relates to the policy on payments for goods received, particularly by government agencies. The second concerns the use of the peso proceeds obtained from the sale of reparations goods and services.

With respect to the first policy issue, I believe that all government entities acquiring reparations goods and services should be required to finance such purchases in full. They should pay on delivery out of funds made available thru normal budgetary or government financial processes. Thus, reparations should not be considered as payment-free additions to program resources. I am convinced that this is the only policy which will assure that the ultimate benefits from the reparations program are subject to government determination. To do otherwise would be to permit the availability of procurements in Japan to be the controlling factor in determining use, rather than our own present needs. Finally, the proceeds from the sale of reparations should constitute a perpetual source of fund for economic development. To this end, I recommend the establishment of an Economic Development Bank capitalized with these proceeds.

But the Reparations Law contains provisions which permit government agencies to acquire reparations goods and services without payment when needed for non-revenue producing projects. The law also allows the Special Economic Development Fund to be appropriated for non-economic projects such as school buildings. To keep this perpetual fund intact, I urge the necessary amendment of the law.

One feature of the Japanese Reparations Agreement that deserves special attention is the reparations loan of $250 million. My policy on this matter is to work closely with the Japanese Government in order to obtain mutually advantageous terms for the loans at the earliest possible time. Any resultant loan arrangement, however, should be made with one paramount consideration in mind: Local enterprises using these credits should be protected from any possible foreign receivership control by means of inter-bank loan arrangements of a guaranteed nature as normally used in foreign trade. In the light of the substantial stakes involved, we must avoid any possibility of losing our control to foreign creditors.

Restraint in Public Borrowing Consistent with Monetary Soundness

While we seek to step up the pace of our economic development, we are confronted with the problem of inadequate government resources. The necessity to use public credit for economic development led to the enactment of Republic Act No. 1000 which authorizes the President to float bonds to finance economic development projects and public works. Thus, financial support from the General Fund of our nation-building activities is being supplemented by the judicious use of the public credit. We have launched an integrated bond financing program embracing all projects for which bond financing has been authorized, the choice of projects so financed being based on the system of priorities promulgated by the National Economic Council.

Expenditures of proceeds from government bonds expand money supply to the extent that these bonds are purchased by the banking system and not out of savings. Hence our public borrowing policy contains measures that ensure flexibility in the use of such funds so that any undue price increases can be checked at any time the situation warrants.

Current developments in our economic and monetary conditions indicate that the reduction of expenditures from bond funds is imperative. The magnitude of spending scheduled in the first Five-Year Fiscal Plan now appears to be too great to be absorbed by our economy without disturbing economic stability. In the face of such a situation, sound fiscal policy dictates that we reduce expenditures of bond funds from domestic flotation to the barest minimum. Nevertheless, we are able to proceed with the programs as originally planned at considerably reduced amounts by shifting the financing to foreign borrowings. The following table

compares the planned expenditures from bond funds in 1958-1962 Fiscal Plan with that of the 1957–1961 Fiscal Plan:

Fiscal Year	1957-1961 Fiscal Plan	1958-1962 Fiscal Plan			Reduction
		Financing Sources (Millions of Pesos)			
		Total	Domestic	Foreign	
1958	264	159.2	145	14.2	104.8
1959	260	197.5	75	122.5	62.5
1960	250	178.3	75	103.3	71.7
1961	240	175.6	75	100.6	64.4
1962	.....	175.6	75	100.6	.....

We have allocated Bond Funds for the purposes and in the amounts indicated in Annex J, in accordance with the following criteria:

1. Borrowed funds can be used only for bona fide capital expenditures.

2. Projects to be financed from this source must be directly productive or clearly contributory to increased agricultural or industrial productivity.

3. The proceeds of public borrowings must be assigned to truly self-liquidating or income-creating projects.

4. All projects financed by borrowed funds must rank high on the priority listing of essential programs and demonstrate a high benefit-cost ratio.

It should be noted that these purposes have all been authorized by law, though in some cases it will be necessary in the years ahead to authorize higher amounts than are provided by existing legislation.

Due to the reduction of public borrowings, we have withdrawn from bond fund financing projects which are not directly productive. The following table shows the projects proposed to be transferred to General Fund financing:

TRANSFERS FROM BOND FINANCING
(₱1000)

To the General Fund	1959	1960	1961	1962
School Buildings	11,000	15,000	15,000	15,000
Prefabricated School Buildings	5,000	5,000	5,000	5,000
Artesian Wells	3,000	3,000	3,000	3,000
River Control	3,500	4,000	5,000	5,000
Public Buildings & Hospitals	9,250	5,000	6,000	7,000
Public Land Survey	3,950	3,000	3,000	3,000
Cadastral Land Survey	3,795	1,500	1,500	.....
NARRA	5,000	4,000	4,000	4,000
Research Fund, R. A. No. 1606	2,380	3,700	2,500	4,500
Reforestation	2,000	2,000	2,000	1,900
	47,865	46,000	47,000	48,400

We have completed negotiations for a foreign loan from the International Bank for Reconstruction and Development in the amount of $21 million to finance the capital equipment requirements of the National Power Corporation Hydroelectric project at Binga. In addition, we shall float in the United States twenty-year dollar bonds authorized under Republic Act No. 1000. In view of the low level of our external debt amounting to about $80 million and of the prospects that external balance can be achieved along with a growing volume of foreign trade, there should be a considerable leeway for us to increase our foreign borrowing. The aggregate amount of bonds to be issued will be approximately $200 million, to be floated from time to time in such amounts as will be agreed upon, approximately $50 million each block.

The plan is to use the proceeds of these dollar bonds to cover the foreign costs of the projects scheduled in the integrated bond financing plan. The excess will be allocated to the private sector and the peso proceeds realized therefrom will be made available to finance the peso costs of these projects. This plan has made possible the reduction of domestic bond issues to ₱75 million annually beginning Fiscal Year 1959.

I recommend the amendment of Republic Act No. 1000 to make possible the foregoing arrangements.

Feasible and Justifiable Levels of Public Debt

As of June 30, 1957, the public debt was ₱1,564.6 million. It is estimated to rise to ₱1,869.5 million at the end of Fiscal Year 1962. (See Annex K.) The proportion of the net debt to the national income will decline from the peak of 15.1 per cent in 1959 to 13.6 per cent in 1962. (See Annex L.)

A reassuring feature of the public debt is that under the five-year schedule, our growing national income may be expected to increase faster than the debt necessary for its stimulation. With these obligations, we are constantly and directly augmenting the national capacity for economic productivity. Furthermore, in the Philippines the ratio of public debt to national income is much lower than in many countries. Under

the Five-Year Fiscal Plan, the ratio will gradually decline from 16.5 per cent in Fiscal Year 1958 to 15.4 per cent in Fiscal Year 1962. (See Annex M)

All public borrowings are being and will be devoted exclusively to capital formation, which if derived from taxation would entail a heavy rise in taxes. By financing with long term debt, payments for improvements are spread out over a period of years so that the people can enjoy their use while paying for them.

Under the Fiscal Plan, we are reducing the budgetary debt through full payment of the external loans as follows: in Fiscal Year 1960, the International Monetary Fund loan contracted in 1951 and the United States Treasury loan under the Romulo–Snyder Agreement of the same year, and in Fiscal Year 1961, the United States Reconstruction Finance Corporation loan of 1947. We have reduced the outstanding certificates of indebtedness issued to holders of emergency currency. By the end of Fiscal Year 1962 the total outstanding budgetary debt shall have been reduced to ₱253 million or 13 per cent of the gross debt, of which ₱250 million represent backpay obligations to the veterans of World War II due in 1983.

An important item in the budgetary debt is the backpay obligations under Republic Act No. 304 which will mature on June 18, 1958. Latest estimates indicate that the actual amount of indebtedness exceeds the ₱300 million on which sinking fund computations were based. The deficiency is approximately ₱32 million. In addition, there are applications for conversion of backpay under Republic Act No. 897 from the 30 year redemption period to 10 years only. This involves ₱157 million.

It is believed that the aggregate sum of ₱124 million out of the Backpay Sinking Fund which was invested by the Rehabilitation Finance Corporation will sufficiently cover backpay obligations maturing in June, 1958. However, should this fund be found deficient on account of the failure of local governments to meet their amortizations to the Sinking Fund or due to additional obligations arising from the eventual approval of pending applications, the annual appropriation provided for in Section 9 of Republic Act No. 301 will have to be continued.

The following table shows the outstanding public debt classified into budgetary and developmental as of the end of each calendar year from 1949 to 1957:

PUBLIC DEBT OUTSTANDING CLASSIFIED BY PURPOSE
(Thousands of Pesos)

As of end of Calendar Year	Budgetary	Percent To Total	Developmental	Percent to Total	Total
1949	458,047	65.3	243,041	34.7	701,088
1950	585,238	66.2	298,633	33.8	883,871
1951	538,475	66.0	277,084	34.0	815,566
1952	492,562	64.0	277,448	36.0	770,000
1953	696,938	65.4	369,037	34.6	1,065,975
1954	632,715	58.3	453,335	41.7	1,086,050
1955	589,777	44.5	736,884	55.5	1,326,661
1956	539,023	35.1	996,417	64.9	1,535,440
1957	502,503	32.1	1,064,904	67.9	1,567,407

It can be seen that while budgetary debt is being reduced, our development efforts are causing an increase in the total debt.

The Rehabilitation and Development Bonds issued in the amount of ₱200 million during the Fiscal Years 1949 to 1951 were not funded until the late President Magsaysay directed that a token amount of ₱5 million be set aside in Fiscal Year 1957. A similar sum included in the 1958 Fiscal Plan was deferred. Beginning Fiscal Year 1959 up to Fiscal Year 1961, ₱10.0 million is set aside every year as sinking fund contribution.

The National Power Corporation will liquidate its ₱82.0 million R & D indebtedness with NPC 30 year bonds. Consequently, we expect only ₱8.3 million R & D bonds to be refinanced by 1961 as compared to last year's estimate of ₱67.9 million. I should like to call the attention of Congress to the need for legislation providing for the refinancing of the R & D bonds and establishing a sinking fund for their final redemption. (See Annex N.)

We have also set aside an aggregate amount of ₱146.1 million during the five-year period to cover the amortizations on the Treasury Notes amounting to ₱162.8 million, of which ₱102.8 million will become due and payable. (See Annex O.) The Treasury bills amounting to ₱15 million which have been refinanced yearly for several years were redeemed last year.

BOOK II—THE FISCAL YEAR 1959 BUDGET

F. THE 1959 FISCAL PLAN

While operating in the context of a long-range fiscal policy we must at this time focus more attention on short-range fiscal policy than heretofore. Our fiscal budgeting should aim at maximum curtailment of expenditures to lessen pressures on our dollar reserves and help check inflationary tendencies. Such stringent budget policies, however, cannot be carried to the extent of jeopardizing essential public services, which go primarily